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Comparative Analysis of Economic Reform and Structural Adjustment Programs in Eastern Africa

With Emphasis on Trade Policies

ANNEX

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ANNEX

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Foreword

Since the early 1980s, a number of countries in East Africa have been implementing economic reform and structural adjust programs in order to address issues of declining agricultural output, limited commercial import capacity, and stagnating economic growth. These reforms were proposed and supported by International Financial Institutions (IFIs) such as the World Bank, African Development Bank (ADB), and International Monetary Fund as conditionality requirements for obtaining structural adjustment loans.

Although progress made in these reforms has not been uniform across sectors and among countries, they were pursued with determination and have yielded some significant benefits in a few countries. Fiscal deficits have been reduced, inflation moderated and the exchange rates in many cases made more realistic.

Prices of farm products have become more attractive than before, and the liberalization of agricultural markets has improved incentives. But much remains to be done, among other things, in improving trade policy, restructuring public enterprises and reorganizing the financial sector. Many countries in East Africa continue to suffer a deterioration in their international terms of trade and severe declines in living standards.

Although they date as far back as 1919 with the formation of the East African Community (EAC), regional integration and trading schemes have not been successful in East Africa. However, countries have not been deterred from participating in them. In recent years, various East African countries have expressed a renewed interest to pursue regional integration. With this spirit, leaders of six East African countries and others outside the region formed the Cross Border Initiative (CBI) in August 1993. CBI's goal is to expedite and consolidate economic integration in Africa and create the Common Market for Eastern and Southern Africa (COMESA), a regional

integration grouping which replaced the Preferential Trade Area for Eastern and Southern Africa (PTA). Since the promotion of trade has emerged as one of the primary economic goals for many countries in East Africa, trade policy is one area in which most, if not all East African countries have begun converging towards more liberal regimes. Most have liberalized their import regimes by lowering tariffs, reducing tariff dispersion, and reducing/eliminating quantitative restrictions.

Import licenses have been eliminated; most countries maintain little or no export restrictions, and do not levy export taxes. Most Governments have established free trade zones, instituted export incentives, offered tax and duty exemptions, and relaxed foreign investment restrictions. Public enterprise reforms have been the most difficult to implement.

In view of the potential implications of structural adjustment and economic reform programs for subregional and regional trade, food security, and overall economic growth and stability, this study is a step in the direction of informing Governments in the region and the international community of the status and future of economic reforms, especially trade policy reforms and how they all relate to national and regional development. The low levels of recorded intra regional trade that are noted by the study exemplify an existing trend in other regions of sub-Saharan Africa and are largely explained by restrictive trade policies of the past. The renewed political spirit supporting regional economic integration that Mr. Ngeno alludes and his survey of existing and emerging trade schemes is testimony to the increasing realization by East African leaders of the potential rewards of regional economic groupings, as was called for by the 1980 Lagos Plan of Action for the Development of Africa.

Partly because of its comparative nature, but also due to its focus on trade policies, the report goes beyond several institutional efforts to review and evaluate the economic reform and structural adjustment programs in East Africa in particular and sub-Saharan Africa in general.

This report is one in a series of studies on Africa's regional trade and agricultural comparative advantage, a joint activity of the USAID Africa Bureau's

Food Security and Productivity Unit in the Office of Sustainable Development, Productive Sector Growth and Environment Division (AFR/SD/PSGE), and the Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA).

Curt Reintsma Division Chief USAID/AFR/SD/PSGE

Executive Summary

This study analyses the current and future status of the implementation of key policy, regulatory, and institutional reforms in six East African countries. The policy reforms analyzed include fiscal, monetary, trade, public enterprises, investments, and price, and market liberalization. The countries covered by the study are Burundi, Ethiopia, Kenya, Rwanda, Tanzania, and Uganda.

These countries experienced economic stagnation in the 1980s as a result of worldwide recession, depressed commodity prices, social, and political instability and poor economic management. These countries have also faced severe macroeconomic instability and structural imbalances since the early 1980s. The economies of these countries are quite similar. With per capita gross national product of less than US\$350, they are all ranked among the poorest countries in the world with Tanzania, Ethiopia, and Uganda ranked as the second, third, and fourth poorest in 1991 respectively. High population growth rates contribute to the low per capita incomes.

Attempts have been made to rejuvenate these economies through the implementation of stabilization and structural adjustment reforms. The reforms have been implemented with multilateral and bilateral donor support, especially from the International Monetary Fund and the World Bank. These are the policies analyzed in this study. The status of current policy implementation is assessed against the measures agreed upon between the countries and the donors. Future policy reforms are evaluated on the basis of their comprehensiveness and realism. Those policies that approximate best practice and appear realistic on the basis of past policy performance get top marks.

The study finds that public enterprise reforms have been the most difficult to implement. Only Kenya and Uganda have made some progress in the implementation of these reforms. Burundi, Tanzania, and Ethiopia have marginally implemented the reforms but Rwanda has made no effort at all. Technical difficulties and the nonviability of the enterprises has delayed implementation of these reforms.

The most successfully implemented policies have been trade and price and market liberalization. Trade liberalization is almost complete in all the countries except Rwanda and Ethiopia. Relaxation of import controls and export promotion have generally been fully implemented. Tariff reforms are still lagging behind in Rwanda, Uganda, Kenya, and Ethiopia; the same applies for exchange rate reforms in Rwanda, Burundi, and Ethiopia. The targets for price and market liberalization have been met in all the countries except Burundi and Ethiopia.

Investment policies have been moderately implemented. These policies have been, or are close to being, fully implemented in Uganda, Kenya, and Tanzania, but are at the early stages of implementation in Ethiopia and have not been implemented in Rwanda and Burundi.

All the countries, except Rwanda and Burundi, have made good progress in fiscal reforms. Nevertheless, no country has successfully implemented all planned reforms. The targets for deficit reduction were met in Uganda, Tanzania, and Ethiopia but failed to be met in the other countries. Tax reform targets were only met in Kenya and Tanzania and were barely implemented in Rwanda, Uganda, and Ethiopia. Budgetary reforms were poorly implemented in all the countries except Uganda.

Good progress has been made in the implementation of monetary policies in all the countries except Burundi. The implementation of some individual policies has been poor and patchy. Although, control of money supply has not been successful in Burundi, Uganda, Tanzania, and Kenya, targets have been fully

met in Rwanda and Ethiopia. Interest rate reforms have been fully implemented in most of the countries. Uganda, Kenya, and Tanzania have fully met the targets for banking regulations. The implementation of bank reform policies are minimal in Rwanda and have not been made in Ethiopia. Monetary policies have not been implemented in Burundi.

On the whole, Kenya, Uganda, and Tanzania have the most articulated policy reforms. The reforms in these countries have also been mostly implemented. This performance is explained by the fact that policy reforms in these countries have been implemented over longer periods than in the other countries. Rwanda, Burundi, and Ethiopia are the poor reformers. This is primarily because of social and political instability in these countries. Ethiopia is a special case because before 1991 its economy was highly controlled, and reforms were only begun at the end of 1992.

Most of the countries have comprehensively articulated proposed future policy reforms. This is especially true of monetary, investment, price and market liberalization, and public enterprise policies. Trade policies have been comprehensively designed in Uganda, Kenya, and Tanzania, with Ethiopia only marginally behind. The design of these policies is, however, poor in Rwanda and Burundi. The least articulated reforms are fiscal policies. No country has comprehensively designed deficit reduction policies, and tax and budgetary reforms have only been comprehensively designed in a few countries.

At the country level Kenya, Uganda, and Tanzania have the most comprehensive policies, followed by Ethiopia and Burundi. Policy reforms are poorest in Rwanda where investment and market liberalization policies have not been stated. Even those policies that are to be implemented in Rwanda have not been clearly formulated. This is true of trade policy and public enterprise reforms. Only monetary policies and policies on price controls, subsidies and taxes have been well defined. This poor performance in Rwanda is a result of continued civil strife. Although social and political instability has also affected the reform program in Burundi the country has managed to design a more comprehensive reform

program than Rwanda. This is especially true of investment and public enterprise reform. Fiscal deficits and budgetary control, together with interest rates and exchange rate policies, are the areas in which Burundi's reform program remains weak. Plans to implement tariff and price control policies have not been started.

For the better performers, Uganda and Kenya have the most comprehensive policies. All reforms, except fiscal policies have been comprehensively designed in these countries. Fiscal reforms, interest rate policy, and privatization policies have not been well articulated in Tanzania. Policy reforms in Ethiopia are at their infancy. This is especially true of fiscal, trade, and public enterprise policies. Considering that Ethiopia only started reforms in 1992, the comprehensiveness with which policies have been designed is remarkable.

The study established that recorded trade among the countries of Eastern Africa is very low. Kenya's exports to the region are the highest at only 13 percent of total exports. Rwanda and Uganda source about 22 and 23 percent respectively of their total imports from the region. Imports from the region by other countries make up less than 5 percent of their total imports.

The low levels of recorded intra-regional trade can be attributed to restrictive trade policies, especially high trade taxes, foreign exchange, and import controls. These policies reduce cross-border trade in the region by placing barriers to trade and by reducing the incentives to trade. They also distort the level of recorded trade by encouraging trade to go through unofficial channels, such as smuggling, therefore causing under reporting of total intra-regional trade. Foreign exchange controls also contribute to the distortion of recorded trade by encouraging overinvoicing of imports and underinvoicing of exports as a means of exporting capital. Trade liberalization will therefore not only raise recorded intra-regional trade through improved incentives and removal of obstacles to trade, but also by removing incentives to engage in smuggling. Liberalization also reduces transaction costs of foreign trade, leading to lower costs of imported goods, improving consumer welfare.

The study also reviews several regional integration schemes. The review concentrates on the objectives, achievements and prospects of the integration schemes. It finds that most of the integration schemes have failed to meet their objectives. The major reason is unequal distribution of benefits. The schemes have also failed to increase intra-regional trade as a result of the competitiveness in production among the partners and the failure to liberalize intra-regional trade.

The study concludes that regional integration based on unilateral trade liberalization (UTL) by each member of the region is the most appropriate form of regional cooperation. This type of arrangement is likely to succeed where the old regionalism failed because it encourages competition, increasing efficiency in production within the region. This will lower the costs of production and promote intra-

regional trade and trade between the region and the rest of the world.

The removal of quantitative restrictions to trade and the movement toward convertible currencies will directly promote intra-regional trade. The policies will also remove incentives for smuggling and other illegal activities and raise recorded trade. UTL will also promote macroeconomic stability that improves credibility of government policies and encourages higher investment in the region. The most important aspect of the new regionalism, however, is that by emphasizing unilateral economic policies the polarization effects are neutralized, which caused breakdowns in regional integration schemes in the past. Each country will be forced to confront the consequences of economic reforms since there will be no scapegoats.

Glossary of Acronyms and Abbreviations

CEPGL Economic Community of the Great Lakes Countries
COMESA Common Market for Eastern and Southern Africa

EERP Emergency Reconstruction and Recovery Project of the World Bank

EAC East African Community
ERP Economic Recovery Program

ESAF Enhanced Structural Adjustment Facility

GDP Gross Domestic Product GNP Gross National Product GOK Government of Kenya

IDA International Development Agency
IMF International Monetary Fund

KNTC Kenya National Trading Company KPCU Kenya Planters Cooperative Union

OGIL Open General Import License

PTA Preferential Trade Area

SAC Structural Adjustment Credit
SAF Structural Adjustment Facility
SAL Structural Adjustment Loan
SDR Special Drawing Rights

TGE Transitional Government of Ethiopia
TIN Taxpayer Identification Number

UNCTAD United Nations Conference on Trade and Development

UNDP United Nations Development Program

URA Uganda Revenue Authority

USAID Unites States Agency for International Development

UTL Unilateral Trade Liberalization
UTO Unilateral Trade Organization

VAT Value Added Tax

1. Introduction

CURRENT AND FUTURE STATUS OF IMPLEMENTATION OF POLICY REFORMS IN EASTERN AFRICA

Sections 2 through 7 review progress on program implementation by the countries under study. Current and future policies, including program targets, are reviewed. The evaluation of program implementation is done by comparing program targets with actual

outcomes from policy changes. Also discussed are situation where there is no policy or where there are policy reversals. Future policy programs are reviewed in terms of their comprehensiveness and the extent to which they can be implemented.

The future reforms reviewed are those for 1994 and 1995. However, in many cases the latest available policy documents are for earlier years. In such cases the review covers the latest years for which information is available.

2. Rwanda

BACKGROUND

Rwanda is a small open economy. It is highly dependent on commodity exports of which coffee and tea accounted for 72 percent and 15 percent of total exports respectively in 1988. The country enjoyed a long period of political stability and economic growth was high in the 1970s. The economic growth, averaging an annual rate of 5 percent during this period, was accompanied by macroeconomic stability and low inflation. This performance was a result of good economic management, a favorable external position, a high level of external reserves and a low debt service ratio. The trade regime was liberal. There were hardly any quantitative restrictions on imports and although imports were subject to licensing, licenses were liberally granted.

The Rwandan economy began to deteriorate in the 1980s. This was principally as a result of declining terms of trade, an overvalued exchange rate, expansionary fiscal policies and structural rigidities. The effects of these problems were compounded by civil war which started in October 1990. The war disrupted economic activities and raised public expenditure. To address the economic problems, the Government of Rwanda adopted a medium-term structural adjustment program for the period 1991-93. This program was supported by an IMF Structural Adjustment Facility in amount equivalent to SDR 30.66 million and a World Bank structural adjustment credit of US\$90 million.

The macroeconomic targets of the programs included:

- the growth of the economy at an average annual rate of 4 percent from 1992;
- lowering of inflation to about 5 percent by 1993;
- reduction of deficit in external current account (excluding grants) to 11 percent of GDP by 1993;

- increase in net official foreign reserves to the equivalent of three months of imports by the end of 1993; and
- reduction in budget deficits (excluding grants) to about 5 percent of GDP by 1993.

The structural measures to be implemented included exchange rate liberalization, tariff reforms, import liberalization, export promotion, tax and budgetary reforms, monetary policy reforms, public enterprise reforms and pricing policy reforms. There were also sectoral policy reforms, namely: agriculture, industry, energy, transport, social development (population, education, health, poverty alleviation and women in development) and environment.

MACROECONOMIC PERFORMANCE

The performance of the structural adjustment program is difficult to evaluate given that data for only one year of the three-year program are available. The review here is therefore based on the 1991 data and some data available for 1992.

In general, most program targets for 1991 were met. The exception is for fiscal and economic growth, which could not be met because of civil strife which increased military expenditures and disrupted economic activities. The real GDP was projected to grow by 1 percent but instead declined by 2.9 percent. The overall deficits and primary deficits rose by 13.3 percent and 16.3 percent of GDP respectively against 1991 program targets of 9.3 percent and 2.7 percent of GDP.

The rate of inflation which was estimated to be 28 percent was only 19.4 percent in 1991. A 40 percent devaluation of the Rwandan franc in November 1990 led to a depreciation of the real effective exchange rate, by 34.4 percent in 1990. However, by the end of

1991 the exchange rate had appreciated by 8.3 percent. The 15 percent devaluation in June 1992 was aimed at correcting this exchange rate misalignment. Lower imports translated to a current account deficit of 11.6 percent of GDP in 1991, compared to the program target of 15.2 percent. Increase in official capital flows and short-term private capital inflows led to an overall balance of payment surplus of US\$69 million in 1991. By the end of 1991, net official foreign exchange reserves equalled 3.8 months of imports.

Available evidence show that the Rwandan economy continued to deteriorate in 1992. This was perpetuated by escalating civil war and a precipitous decline in coffee prices.

CURRENT POLICY REFORMS

Fiscal Policy

The major fiscal policy target was reduction in budget deficit and increase in tax revenue collection.

The budget deficit was to be lowered through a policy of budgetary austerity. These measures included reduction of the growth of the wage bill, elimination of domestic payment arrears, removal of indirect transfers and elimination of direct subsidies to public enterprises. As a first step toward dealing with the wage bill problem, a civil service reform program was to be effected starting January 1992. A public sector reform program was to be initiated. A three year (1991-93) rolling public investment program was to be prepared by March 1, 1991. Annual public expenditure programs, providing details of current expenditure and capital outlays at the sectoral level, were also to be prepared and incorporated in the 1992 financial year budget.

Tax revenue was to be improved by strengthening tax collection and administration. Some of the specific actions which were to be taken included: raising sales tax rates; revising user charges for government's commercial utilities to cover costs; and review and adjustment of charges for government's commercial services. Exemptions from import duties and income taxes granted under the 1987 investment code were to

be reduced.

The budgetary targets of the program could not be attained because of continued deterioration of the economy and increased spending and imports. Some effort to raise revenue was made. Sales taxes were raised in December, 1991 from 2 percent to 5 percent for essential goods and by 1 percent, 6 percent and 10 percent for services, entertainment and other goods, respectively. Specific import taxes were also raised on petroleum products. Reductions of tax exemptions under the 1987 Investment Code were not implemented. However, a reform of the tax system was started in 1992.

Monetary Policy

The government was to implement a restrictive monetary policy as a means of controlling inflation and supporting the exchange rate policy. This was to be achieved by the setting of quarterly ceiling on credit expansion by the Central Bank through a system of reserve requirements, liquidity ratios, and rediscount rates for commercial banks. Positive interest rates were to be kept through the introduction of a flexible interest rate policy. Minimum deposit and lending rates and the rediscount rate were increased in November 1990. Under the program, control on interest rates was to be abolished by the end of 1993.

The monetary and interest rate targets for the program were achieved. In 1992, money supply was projected to grow by 3.5 percent, which was below the projected 7.3 percent increase in nominal GDP. The government also could afford to lower interest rates by 3-4 percent to stimulate investments while leaving the real interest rates positive. There was also a positive move toward reliance on indirect market-based instruments of monetary policy.

Trade Policy

The external sector policies included exchange rate liberalization, import liberalization, tariff reform and export promotion. Elimination of external debt arrears was also one of the policies.

The Rwanda franc was overvalued in the 1980s.

The liberalization of the regime started with a 40 percent devaluation of the currency in November, 1990. This policy was to be kept under review and adjusted when necessary. A 15 percent devaluation was implemented in June, 1992.

The import regime was to be liberalized under the program through the introduction of an open general license covering all goods, except a negative list for security and health reasons, which included liberalization of import licensing system and foreign exchange allocation, and elimination of quantitative restriction and replacing them with customs duties or import charges. All these measures were implemented on time or with a slight delay, as in the case of liberalization of import licensing, which was imple-

mented in June instead of April, 1992.

The program tariff reforms started in December 1990 were to be continued. These included introduction of a maximum duty rate and the lowering of the number of rates by the end of April 1991. This was implemented on time. The maximum duty rate was set at 100 percent and the number of rates were reduced from 40 to 8.

Exports were to be promoted by elimination of taxes on non-coffee exports and by expanding and diversifying exports especially by promoting tourism. Taxes on non-coffee exports were eliminated in December 1990. However, promotion of nontraditional exports was stifled by political and social instability.

Table 2.1. Rwanda: Current Policy Implementation Matrix, 1991-1993			
Policy	Objective	Date	Implementation
1 Fiscal Policy	 Reduce net government indebtedness to domestic banks Eliminate domestic and external arrears Review entire tax system Increase sales taxes 	- cont - Dec. 91	Implemented Dec 90
2 Monetary Policy	- Keep monetary growth below growth in nominal GDP - Maintain ceilings on net domestic credit to government - Adopt indirect instruments of controlling domestic credit - Simplify and maintain flexible interest rate policy - Abolish all interest rate controls	- cont - cont - 93 - cont - 93	
3 Trade Policy			
Exchangerates	- Regularly review exchange rate to balance demand & supply	- cont	
QRs & import	 Implement OGL system subject to short negative list of restricted imports. 	- Jun 92	
licensing	- Replace QR's with customs duties or import surcharges	- Apr 91	
Tariff reform	 Increase minimum tariff to 10 percent Convert specific import taxes to ad valorem basis (except petrol prods, beverages and cigarettes) 		Implemented Dec 90 Implemented Dec 90
	- Set maximum import duty and reduce number of rates - Reduce maximum import duty	- Apr 91 - Jan 93	
Export Incentives	- Review export promotion policies - Eliminate taxes on non-coffee exports	- Jun 91	Implemented Dec 90
4 Price & Market Policies	 Eliminate controls on profit margins except monopolies Eliminate price controls except for short list Ensure remaining controlled item prices reflect exchange rate changes 	- cont	Implemented Implemented
5 Public Enterprise Reform	 Adopt PE privatization strategy Begin execution of rehabilitation, privatization and liquidation of PEs according to program 	- Sep 91 - 91-	

Source: Rwanda, IBRD and IMP (1991)

Pricing and Market Policies

Before the program was agreed upon, price control was implemented through ex-post controls on profit margins. There were also direct price controls on a number of goods and services. Under the program laws and regulations were to be adopted, before the end of April 1991, to abolish controls on profit margins except for monopolies. Prices of all goods and services were to be decontrolled. Electricity prices were also to be adjusted to cover cost increases before the end of June, 1991. All measures were implemented on time.

The competitiveness of the economy was to be achieved by implementing measures which would control domestic costs. One of these measures was the wage restraint policies which had been pursued since the 1980s.

Public Enterprise Reform

The program emphasized the rehabilitation and restructuring of public enterprises. The government was to adopt a general privatization strategy before September, 1991 and present public enterprise legislation to Parliament before December 1991. A phased execution of public enterprise rehabilitation, privatization and liquidation programs was to be implemented as agreed under the IDA supported program of March, 1990. None of these objectives had been achieved by the end of 1991.

FUTURE POLICY REFORM MEASURES

The latest information for Rwanda covers the period 1991 to 1993. It is therefore not possible to establish planned policies for the years 1994 and 1995.

Fiscal Policy

The overall objective of fiscal policy is to maintain budgetary austerity so as to contain the consolidated budget deficit. Specifically, the entire tax system is to be reviewed so as to increase yield and efficiency and also shift the system toward taxing consumption and income as opposed to production and trade. On the expenditure side, the focus is on containing the growth of the wage bill while clearing existing arrears. An audit of the civil service has already been undertaken as a prelude to civil service reform.

Monetary Policy

The primary aim of monetary policy during the period is to maintain monetary growth below the growth of nominal GDP. This is to be done by maintaining ceilings on net domestic credit to the government and by adopting indirect instruments of monetary policy which will give the government more flexibility in influencing the money supply. Over the period a simple and flexible interest policy is to be maintained with interest rate liberalization targeted for 1993.

Trade Policy

Trade policy reforms are somewhat limited for the 1991 - 1993 period. The exchange rate will be maintained at a competitive rate but not fully liberalized. Quantitative restrictions are to be replaced with customs duties and import surcharges. The surcharges are, however, to be eliminated by the end of 1993. An Open General License system is to be introduced to ensure access to foreign exchange for imports, but it will be subject to a negative list of banned imports. The maximum tariff rate is to be reduced by January 1993 and the number of tariff rates are also to be reduced. Export promotion policies are to be reviewed with the objective of reducing dependence on coffee exports.

Pricing and Market Policies

Since price controls for most items have already been eliminated, price policy over the period is aimed at ensuring that the prices of the remaining controlled items move in line with exchange rate changes.

Public Enterprise Reform

Public enterprise reform is being addressed in the context of a reform project supported by the Interna-

tional Development Agency (IDA). The objectives of the program are to improve the institutional and legal framework for the enterprises to ensure greater accountability and to improve efficiency through rehabilitation, divestiture, privatization or liquidation.

3. Burundi

BACKGROUND

Burundi is a small, landlocked and densely populated country. Agriculture is the country's major economic activity, accounting for 90 percent of employment and 90 percent of exports in 1991. The industrial sector accounts for 14 percent of GDP and 6 percent of exports. The services sector accounts for 25 percent of GDP.

Coffee is the major export commodity accounting for 80 percent of total exports. The performance of Burundi's economy is therefore closely tied to fluctuations in international coffee prices. For example, lower coffee prices during 1982-85 contributed to economic stagnation over the period. However, unfavorable weather conditions and expansionary fiscal policy also contributed to macroeconomic instability.

The government responded to the economic difficulties by tightening economic controls and by resorting to higher external borrowing at nonconcessional terms. The controls on the economy created distortions which prevented the economy from efficient adjustment to its equilibrium position. Serious civil strife also contributed to poor economic performance in the past.

As a step toward the solution of these problems the government initiated a liberal economic and political regime in 1987. This process started with the adoption of a structural adjustment program in 1986. The program, covering the period 1986-1990, was supported by three annual arrangements under the Structural Adjustment Facility (SAF) from the IMF and two Structural Adjustment Credits (SAL I and SAL II) from the World Bank.

Several stabilization and structural adjustment measures were to be implemented under the SAF and SAL programs. Exchange rate liberalization was to be undertaken to achieve a balance in the external

account. The current account and budget deficits were to be reduced to deal with inflationary problems. A public expenditure program was to be introduced to enhance efficient macroeconomic management. Public enterprises were also to be reformed. The efficiency of the economy was to be enhanced through import liberalization, price and interest rate decontrol, liberalization of agricultural prices and revision of the investment code.

Under the medium-term program the exchange rate was devalued by 24 percent against the SDR. Import controls were removed except for those products competing with goods produced by public enterprises. The number of tariff rates was reduced and tariff dispersions for non-luxury goods were reduced from 0 to 80 percent to 15 to 50 percent. Only luxury goods continued to be taxed at 100 percent.

The number of commodities with controlled prices was also reduced. The exceptions were producer prices for key agricultural exports and some strategic products. It also prepared a public investment program and started parastatal reform. Interest rate liberalization, which was to start in 1986, was not very successful. Furthermore, targets for economic growth were not achieved primarily because of adverse weather conditions and the fall in coffee prices in 1987 and 1989.

In real terms, the economy grew by 3.8 percent during the adjustment period. Continued civil strife however adversely affected economic performance. Overall deficits averaged 21 percent of GDP between 1986 and 1990. Public expenditure as a proportion of GDP remained unchanged at 27 percent during the program period. Little progress was made in parastatal reform.

It was with this economic background that the Government of Burundi decided to broaden and accelerate the adjustment process in 1991. The 1992-94

adjustment program was supported by an enhanced structural adjustment facility (ESAF) from the IMF and a third structural adjustment credit (SAL III) from the World Bank.

The broad objectives of the ESAF supported programs were to promote economic growth, diversify the economy, improve the economy's resilience to external shocks, and expand the role of the private sector in productive activities. A greater proportion of credit was to be channelled to the most productive sectors of the economy by improving the effectiveness of monetary and credit policies.

The specific objectives of the program included: raising the annual real growth of GDP to 4 percent; reduction of the rate of inflation to 4 percent in 1994; limiting the current account deficit (excluding grants) to 14 percent of GDP by 1994; raising the official reserves to 5 months of imports; raising domestic savings; and reduction of the overall fiscal deficit (excluding grants) to 6.0 percent of GDP by 1994.

The program set the economic growth targets of 3.3 percent and 3.6 percent for 1991 and 1992 respectively. The targets for the inflation rate were 9 percent and 7-8 percent for 1991 and 1992 respectively, while targets of the current account deficit were set at 16.6 percent and 16.2 percent of GDP respectively.

The overall budget deficit was set at 9 percent of GDP in 1991 and the Burundi franc was to be devalued by 15 percent. Monetary and credit policies were to be strengthened through the use of indirect monetary management. Reform measures were to be introduced in coffee, public enterprises, and other productive sectors to promote private participation and reduce the role of the state in the economy. Controls on imports and payments and transfers for current international transactions were to be liberalized.

MACROECONOMIC PERFORMANCE

The implementation of the structural program in 1991 was mixed. Real GDP grew by 5 percent and inflation was almost 9 percent. The overall fiscal deficit was little more than 12 percent of GDP. These were above the program target. However, improved tax administration raised revenues by 20 percent, but

current expenditure declined by 5.5 percent. The current account deficit was 1 percent higher than the program target. Poor economic conditions, primarily as a result of a sharp decline in coffee prices, led to a revision of program targets. The target for the current account deficit was revised upwards to 20 percent of GDP. Overall fiscal deficit was also revised upward to 10.3 percent of GDP.

CURRENT POLICY REFORMS

Fiscal Policy

Fiscal policy since implementation of structural adjustment in mid 1986 has been aimed at increasing the level of public savings so as to finance the public investment program. The budget deficit was to be contained so as to avoid crowding out the private sector, contain domestic demand and avoid inflation. As already indicated the targets for overall budget deficits were not met in 1991.

Monetary Policy

Instead of the programmed reduction in financing of the Central Government, the domestic banking system increased the financing in 1991. Credit to the private sector also rose faster than planned. Steps were taken to redress these anomalies in 1992. The Central Bank refinancing rate was raised from 12 percent in May 1992 and the automatic access to this source of funds by the commercial banks was eliminated. A uniform reserve requirement was also imposed on all the liabilities of the banking system. These measures were anticipated to reduce the growth of money supply to 7.6 percent in 1992.

Trade Policy

The exchange rate in Burundi remains officially determined though it was been pegged to a tradeweighted basket of currencies since April 1992. The franc depreciated by 11 percent against the basket between April and June 1992. Exchange control authority has been delegated to commercial banks which

buy and sell foreign exchange albeit at a rate between a 2 percent band of the official rate.

Trade is relatively liberalized with most controls having been eliminated. The government has also adopted an Open General License system to facilitate imports. By 1989 the range of tariff rates was 15 percent to 50 percent except for luxury goods which were taxed at 100 percent and the number of duty rates had been reduced from 57 to 5.

A number of measures have been taken to promote exports including a duty drawback scheme, the elimination of export taxes, replacement of export licensing with export declaration and the surrender of export proceeds to commercial banks as opposed to the

central bank. The government allowed exporters of nontraditional exports to automatically retain 30 percent of export proceeds in convertible accounts. An export processing free zone will be established.

Investment Policies

A number of policies have been initiated to encourage local and foreign investment. To simplify legal and administrative procedures and reinforce the incentive structure, new company, commercial and labor codes are being drawn up. Tax incentives for investment and production are to be improved subject to maintaining tax revenues. The establishment of the

	Table 3.1. Burundi: Current Policy Implementation Matrix			
Policy	Objective	Date	Implementation	
1 Fiscal Policy	- Convert transactions tax into VAT - Improve tax administration and broaden tax base - Reduce ratio of wage bill to GDP (recruit max of 1000 per annum) - Introduce Civil service reform policy - Increase share of spending on goods and services - Agree on three year rolling PIP with World Bank - Reduce Budget Deficit	- 1993 - cont - 92-95 - 92-94 - 92-95 - cont - cont	Assistance from UNDP 25% in 92; Proj-28, 30% in 93-4 Done	
2 Monetary Policy	 Keep monetary growth rate below nominal GDP growth rate Maintain positive real interest rate Enhance bank supervision (audit at least once every 2 years) 	- cont		
3 Trade Policy				
Exchangerates	More flexible exchange rate systemMore stable real exchange rate	- cont - cont	Franc pegged to trade currencies in April 1992	
QRs & import licensing	- Simplify exchange controls	- cont	Exchange controls delegated to commercial banks, export licensing removed	
Export Incentives	- Improve Incentive system for exports	- cont	30% retention acct. for non- trad. exports, export taxes abolished	
4 Price & Market Policies	- Remove institutional, legal & regulatory impediments to development of private sector	- cont	Drafted company & com mercial codes & bankruptcy laws by end of 1993	
	- Encourage foreign direct investment	- cont	Export oriented free zone ets. with help from USAID	
	- Improve tax incentives to investment	- cont	?	
5 Public Enterprise	- Labor market liberalization	- cont	New labor code prepared	
Reform	- Efficient use of energy resources	- cont	Flexible petrol prod. pricing	
6 Public Enterprise Reform	 Privatize ten PE's Complete all liquidations regular servicing of PE debt to government Payment of dividends, taxes & levies by PE's to state Ceilings to subsidies to PE's and include subsidies in budget 	- end 91 - Dec 93 - cont - cont - cont	Offer sale made by end 1992 15 wound up by Nov. 1992 Study of imple. completed Study of imple. completed Limits set on subsidies	

Source: Burundi, IBRD and IMP (1992)

export oriented free zones is also expected to encourage foreign investors.

Public Enterprise Reform

The major achievement in public enterprise reform since 1987 is the liquidation of a total of 15 public enterprises. By 1991 all public enterprises had been classified into those to be liquidated, rehabilitated, privatized or reintegrated into the public administration. Progress in privatization has however been very slow (partly due to the thin entrepreneurial class and lack of capital) with offers for sale being made for only 6 public enterprises by mid 1992.

The government intends to sell public enterprises equivalent to 41 percent and 14 percent of total assets in government during 1993 and 1994 respectively. Remaining public enterprises are expected to service debt to the government regularly as well as pay all dividends and taxes due to the state. They will also be subject to performance contracts and regular audits.

FUTURE POLICY REFORM MEASURES

Supported by an Enhanced Structural Adjustment Facility (ESAF) from the IMF and a third Structural Adjustment Credit (SAC III) from the World Bank, Burundi is continuing with a comprehensive economic and financial adjustment program for the next three years. For 1992 - 1995 the quantitative objectives of the program include; increasing the annual real GDP growth rate to about 4 percent, reducing inflation to 4 percent per annum by 1994 and limiting current account deficit to 14 percent of GDP by 1994.

Fiscal Policy

Fiscal policy is geared towards containing the overall budget deficit to a level that will permit the government to improve its net position with the banking system. On the revenue side the elasticity and efficiency of the tax system is to be improved. The Transactions tax was to be converted into a value added tax, while import duty restrictions were to be strictly limited in 1993.

Expenditure on salaries and wages are programmed to decline. However, the share of spending on goods and services is to be increased to 28 percent of GDP in 1993 and 30 percent in 1994. A civil service reform program is to be introduced over the period with the assistance of the United Nations Development Program.

Monetary Policy

Monetary policy is aimed at reinforcing the restrictive demand management stance of macroeconomic policies. However, specific policies to be implemented up to 1995 are very limited. The policy of maintaining monetary growth below the growth of nominal GDP is to be continued. The policy of positive real interest rates is also to be continued. Bank supervision is to be enhanced by greater control over refinancing and auditing of banks at least every two years. An interbank market, though no specific timetable has been established, is to be developed during the program period.

Trade Policy

No major exchange rate changes are planned over the period. The exchange rate will remain pegged to a trade-weighted basket of currencies. The only other trade policy change, after the 1992 changes, is the encouragement of exports by simplifying existing controls and procedures.

Investment Policy

A number of changes are planned before 1995 in the area of investment promotion. Firstly, by the end of 1993, draft company and commercial codes, bankruptcy laws and a labor code are to be presented to the legislature. These reforms are aimed at removing institutional, legal and regulatory impediments to private sector investment. Secondly, tax incentives to investment are to be improved in a revenue neutral manner in line with tax reforms. Finally an export oriented free zone is to be established with the help of USAID.

Price and Market Liberalization

A number of changes are planned for the agricultural sector. Distribution of seeds and fertilizers is to be liberalized before 1995 while taxes on these and other inputs are to be harmonized and reduced. Enforced cultivation of cotton is to be eliminated as are regulations on the use of fertilizers in the tea industry.

4. Uganda

BACKGROUND

Uganda's economy began a downward slide with a military coup in 1971. Civil Strife, political instability and poor economic management contributed to serious economic difficulties. It was not until 1986, when the NRM Government came to power, that economic and socio-political reconstruction began.

The initial reforms, adopted under a three-year structural adjustment program in 1987 were supported by an IMF Structural Adjustment Facility (SAF). They were also supported by an IDA Economic Recovery Credit. This program led to the implementation of a wide range of structural and financial reforms with the aim of achieving high and sustained economic growth. The measures taken included: substantial exchange rate devaluations; import liberalization; elimination of most price controls; initiation of civil service review; and a comprehensive public sector investment program.

The reforms led to substantial improvement in the country's economic performance during 1987 and 1988. Real GDP rose at an annual average rate of 6.6 percent during the period. Inflation declined from 320 percent on an year-end basis in 1986 to 163 and 118 percent in 1987 and 1988, respectively.

In 1989 the government decided to consolidate the gains of 1987/88 by intensifying and strengthening the adjustment and rehabilitation process. These efforts were supported by an IMF, ESAF and IDA Second Economic Recovery Credit. The targets of the 1989/90 -1991/92 program included an annual GDP growth rate of at least 5 percent; reduction of inflation rate from 55 percent in 1988/89 to 7.5 percent in 1991/92; and the achievement of a sustainable external payments position by the end of the program. These objectives were to be attained by a series of measures including:

- exchange rate liberalization, trade liberalization, introduction of retention accounts for non-coffee exports, and regular review of producer prices;
- higher expenditures on basic social services, infrastructure, and the rehabilitation and restructuring of productive capacity;
- strengthening of budgetary performance through improvement in tax system, control of government expenditure and civil service reform;
- public enterprise reform; and
- financial sector reform.

The Uganda shilling was devalued in March 7, 1989. At the same time export retention scheme was expanded to include all non-coffee exports. Specific duties were raised by between 48 and 56 percent in March 1989. Minimum bank deposit and maximum bank lending rates were also raised by 7 and 10 percent, respectively. This was accompanied by closer supervision of the financial institutions.

These policies were expected to lead to an overall fiscal deficit (excluding grants) of 3.5 percent of GDP in 1988/89; an inflation rate of 55 percent; a GDP growth rate of 5 percent; and an external account deficit of 4.1 percent of GDP. Real GDP grew by 6.6 percent in 1989. However, the fiscal deficit was higher than the program estimate by 0.8 percent and money supply rose rapidly. The inflation rate rose to 86 percent and the overall balance of payments continued to deteriorate.

The poor economic performance led to the revision of the 1989/90 program. Under the revised program GDP was estimated to grow at the original annual rate of 5 percent. The inflation rate was estimated to decline to 30 percent during the period. However, the current account deficit and the overall balance of payments was expected to worsen because of projected declines in coffee prices.

The revised program began to be implemented in October 1989. The exchange rate was devalued by 41.2 percent and from November 1989 the exchange rate of the Uganda Shilling was pegged to a tradeweighted basket of currencies. This was followed by a system of managed float and by June 1990 the exchange rate had depreciated by 12.7 percent.

The economy responded favorably to the policy measures. Real GDP grew at a range of 6-7 percent in 1989/90. The inflation rate declined to 29 percent by the end of June 1990. The decline in the inflation rate resulted in positive real interest rates. However, fiscal performance during 1989/90 was poor and the growth of money supply continued to rise. The current account deficit was expected to deteriorate because of lower export earnings, but the overall balance was set to improve because of increased capital inflows.

The Government also implemented several structural and institutional reforms during the period. Several tax changes were made as a means of broadening the tax base.

A new 10 percent sales tax was imposed on most previously exempted goods and a 10 percent customs duty was also imposed on most zero-rated imports. Sales tax rates were also increased on beer, soft drinks and cigarettes. The rehabilitation of infrastructure, especially transport and communications, was continued. A program to alleviate the social costs of adjustment was also introduced.

Despite the major economic reforms and the gains achieved, in 1989/90, Uganda's economy remained weak. The economy also faced major structural, institutional and financial difficulties. The 1990/91 - 1992/93 program was designed to deal with these problems. The main objectives of the program included; real GDP growth rate of 5 percent; reduction of annual inflation rate to below 10 percent by the end of 1992/93; and strengthening of the balance of payments position. The reconstruction and rehabilitation of social and institutional infrastructure was to be continued.

Other policy measures to be pursued were: exchange rate and trade liberalization; price reforms; reduction of fiscal deficits, parastatal reforms; banking sector reform; improvement in tax administration

and interest rate liberalization. Fiscal deficits (excluding grants) were programmed to decline from 6.5 percent of GDP in 1990/91 to 6.2 percent in 1992/93. Gross domestic savings were projected to rise from 1.6 percent of GDP to 4.6 percent of GDP. The current account deficit was projected to decline from 18.3 percent of GDP during 1989/90 to 13.3 percent in 1992/93. A hostile external environment, especially unfavorable terms of trade and high Debt service Payments, limited the achievement of the targets during the 1991/92 period.

To strengthen the economic recovery program the Government of Uganda sought more donor assistance in 1992. The IMF approved an arrangement under the ESAF in an amount equivalent to SDR 39.8 million on November 25, 1992. Uganda also benefitted from the World Banks Economic Recovery Credit II and a Structural Adjustment Credit (SAC I) in 1992. Some of the macroeconomic objectives of the 1992/93 program were: achievement of annual growth of real GDP of 5 percent; reduction of annual inflation rate from 63 percent in 1991/92 to 15 percent in 1992/93; strengthening of balance of payments position; increase in foreign exchange reserves; and a reduction in external debt arrears.

MACROECONOMIC PERFORMANCE

The performance of the economy under the 1992/93 program was very robust. The real GDP grew by 7 percent. This was 2 percentage points above the program target. Inflation rate was minus 0.6 percent at the end of June 1993, compared to the program target of 15 percent. The overall deficit was Uganda Shillings 64 billion lower than the target. Total revenue was marginally less than the program target but total expenditure was below the program target.

The current account deficit declined from 13.3 percent of GDP in 1991/92 to 12.3 percent in 1992/93. This performance was linked to higher earnings from non-coffee exports and tourism and capital inflows stimulated by high interest rates and from returning expatriate Ugandans. The capital account surplus was also significantly high in 1992/93 because of project support disbursements and lower

amortization of external debt. However, Uganda made significant progress in clearing external debt arrears and in reducing external debt burden.

CURRENT POLICY REFORMS

Fiscal Policy

The country has had mixed performance in achieving revenue and expenditure targets. Total revenue/GDP ratio remains very low compared to similar countries but it has risen from 6.8 percent in 1988/89 to 7.4 percent in 1991/92 and 8.1 percent in 1992/93. These figures are, however, well below the targets set in the reform program.

Some progress has been made in improving tax administration, including the setting up of the Uganda Revenue Authority (URA) in 1991/92. The government has also begun implementation of a Taxpayer Identification Number (TIN) system.

The government has been able to successfully control its recurrent and domestically financed development expenditure. This has been achieved through a system of monthly expenditure releases based on resource availability.

With the support of donors the civil service reform program has been instituted. Forty two thousand ghost workers were eliminated in 1991/92 followed by the retrenchment of almost 14,000 workers in 1992/93. Another 65,000 workers are scheduled to be retrenched in 1993/94 leaving a civil service of 150,000. However, the government has begun increasing civil service salaries which remain below the minimum living wage and more increases are set for 1993/94 subject to a maximum wage bill of UShs 89 billion.

The army has also been reduced in size and will stand at 45,000 by the end of the 94/95 fiscal year which is a half of its size at the beginning of the decade.

Despite these achievements the overall budget deficit (excluding grants) has risen from 4.3 percent in 1988/89 to 15.8 percent in 1991/92 and 12.1 percent in 1992/93. In 1993/94 it is projected to fall to 11.6 percent.

Monetary Policy

The rate of monetary expansion has remained high throughout the reform period. For example, broad money grew by 41.8 percent compared to the program target of 21.7 percent. Despite the continuous

Table 4.1. Uganda: Current Policy Implementation Matrix, 1989/90 - 1991/92				
Policy	Objective	Date	Implementation	
1 Fiscal Policy	- Maintain overall deficit at 1% of GDP (1.9% excluding grants) - Increase revenue as % of GDP to between 8.3% & 8.5% - Reduce dependence on external budgetary support - Widen tax base - Implement comprehensive program to strengthen tax administration	- 91-92 - cont - cont - cont - cont	Not achieved 7.4% in 91/92	
2 Monetary Policy	- Reduce growth in money supply to 13% - Reduce inflation rate to 7.5% - Improve bank supervision (esp. building societies)	- 91-92 - 91-92 - cont	53% growth in 91-92 42% in 91-92	
3 Trade Policy	- Regular Exchange Rate review to avoid real appreciation - Expand Open general licensing (OGL) and Special Import Program (SIP) to assist importation of inputs by firms	- cont		
6 Public Enterprise Reform	- Improve efficiency and performance of PE's - Industrial enterprise divesture and reform	- cont - cont		

Source: IMP (1989)

large increases in broad money the government was able to bring inflation to single digit level by the end of the 1992/93 fiscal year.

Most interest rates had been liberalized, by November 1992 with the exceptions of those on agricultural loans, term credits and one year deposits which are linked to a moving average of yield on treasury bills.

The government has improved bank supervision by bringing building societies and development finance institutions under the supervision of the Bank of Uganda. The Bank of Uganda Act was amended to give the Bank more autonomy and to strengthen its supervisory role. Finally government controlled banks, particularly the Uganda Commercial Bank, have been restructured.

Trade Policy

The government has maintained a policy of external competitiveness through monthly reviews of the exchange rate since 1988. This has been done to avoid

real exchange rate appreciation. Foreign exchange bureaus were set up in 1990 and were allowed to buy and sell foreign exchange at freely determined rates. For the purposes of import support two programs (Open General Licensing and Special Import Program) were initiated. Under these programs the government maintained (with donor support) a separate auction rate which traded at a discount to the bureau rate. This rate was abolished on November 1, 1993 when a single unified rate was adopted thereby completing the liberalization of the exchange rate.

Public Enterprise Reform

The Uganda government only began comprehensive public enterprise reform in 1992 when the Public Enterprise Reform and Divesture Secretariat was established. Prior to this the country had only carried out diagnostic and managerial audits of specific public enterprises.

In 1992/93 the reform program was adopted and 8

Table 4.2. Uganda: Current Policy Implementation Matrix, 1990/91 - 1992/93				
Policy	Objective	Date	Implementation	
1 Fiscal Policy	 Establish more broad based system of sales and excise taxation Rationalize customs tariff structure Review and adjust petrol prod pricing and duty periodically Review coffee tax to maximize sales while maintaining revenue Review and strengthen tax administration Limit expend to targets & take corrective action on revenue shortfalls and expenditure overruns 	- 90-91 - 90-91 - cont - 91-92 - cont - cont		
2 Monetary Policy	 Review and adjust level and structure of interest rates to maintain positive real interest rate Strengthen and enhance status of bank supervision 	- cont - cont		
3 Trade Policy	 Achieve a market clearing exchange rate Review foreign exchange allocation system to achieve full trade and payments liberalization Reduce coffee barter commitments in favor of cash exports 	- 90-91 - cont - 90-91		
4 Investment Policies	- Modify and promulgate investment code - Review and simplify industrial licensing	- Mar. 91 - Dec. 90		
6 Public Enterprise Reform	 Sale of 8 identified PE's Diagnostic audit of 6 PE's, Management audit of 10 PE's followed by restructuring and strengthening 	- 90-91 - 90-91		

Source: Uganda, IBRD and IMF (1990)

public enterprises were privatized. The program was, however, suspended in April 1993 following criticism of the pricing in some of the sales. After review the program was revived in August 1993. Under the new program the government will retain 100 percent ownership in only 10 enterprises and majority and minority share holdings in 17 and 20 enterprises respectively. Forty three enterprises will be fully privatized and 17 will be liquidated. By November 1993 two enterprises had been privatized. Enterprises to remain under government ownership are to be given more autonomy and managed commercially.

FUTURE POLICY REFORM MEASURES

The latest policies in Uganda are contained in the 1993/94 policy program which is supported by an additional annual arrangement under the Enhanced Structural Adjustment Facility (ESAF) of the IMF. The objectives of this program include: sustaining a growth rate of GDP of about 5 percent, containing the rate of inflation and improving the external payments position with a goal of achieving an external current account deficit of 8.8 percent of GDP by 1995/96. These goals will achieved strong macroeconomic policies and intensification of structural reforms.

Fiscal Policy

Under the 1993/94 program the overall budget deficit (excluding grants) is programmed to fall to 11.6 percent of GDP. This deficit is to be met without recourse to net government borrowing from the banking system. A number of tax reform measures are to be undertaken with the aim of increasing the revenue over GDP ratio to 9.5 percent.

These measures include: enlarging income tax coverage to include allowances and benefits, higher taxes on fuel and beer and improved tax administration including finalizing the adoption of Taxpayer Identification Numbers. While providing for high priority areas (for example army demobilization, civil service retrenchment and elections) expenditure, and net lending, is to be strictly limited to UShs 830 billion. Civil service is to be reduced by some 65,000 positions.

Monetary Policy

In the area of monetary policy the rate of growth of broad money is to be reduced to 14.7 percent in 1993/94. This will be done through further development of indirect instruments of monetary control, including an active rediscount rate policy, and the broadening of the treasury bill market. Net domestic bank financing as noted earlier is to be totally eliminated over the period. The remaining interest controls are to be lifted in 1993/94 thereby fully liberalizing interest rates.

Trade Policy

Given that the existing trade system in Uganda is quite liberal there is little scope for further reforms. In 1993/94 tariffs are to be reduced from a six rate structure ranging from 0 to 50 percent to a four rate structure ranging from 0 to 30 percent (the lowest in the region). However, prohibitions on beer, cigarettes and soft drinks are to be maintained. Uganda is also participating in a World Bank and IMF sponsored regional initiative to facilitate greater cross-border trade and private investment. As a further incentive to investment the corporate tax rate is to be reduced from 35 to 30 percent.

Public Enterprise Reform

Public enterprise reform continues to be governed by the divestiture bill enacted in 1993. In 1993/94 8 public enterprises are to be privatized and another 12 liquidated. By 1993/94, the 10 enterprises in which the government will maintain 100 percent interest will be restructured according to an action plan worked out with the World Bank.

Price and Market Liberalization

The government plans to remove controls on the pump prices of petroleum products during 1993/94. The success of this policy depends on whether a new system of taxes on the products under a market determined price regime can be worked out.

Table 4.3. Uganda: Policy Matrix, 1993/94				
Policy	Objective	Date	Implementation	
1 Fiscal Policy	- Increase revenue to 9.5% of GDP - Improve efficiency of tax collection =Introduce taxpayer identification number (TIN) system - Contain expenditure and net lending below 21.1% of GDP - Reduce civil service by 65,000 positions - Overall deficit 11.6% of GDP (6.3% including grants)	- 93-94 - 93-94 - 93-94 - 93-94 - 93-94	TINs created govt. employees	
2 Monetary Policy	 Limit increase in broad money to 14.7% Maintain net credit from banking system to government at zero Remove remaining controls on interest rates Stimulate fall in real interest rate 	- 93-94 - 93-94 - 93-94 - 93-94		
3 Trade Policy	- Complete exch. rate liberalization (move to single unified rate) - Transfer exchange controls to banks and forex bureaus - Enhance regional trade (schedule for removal of import bans)	- 93-94 - 93-94	Implemented Nov. 1, 1993 Implemented Nov. 1, 1993	
4 Investment Policies	- Reduce corporate income tax from 35% to 30%	- 93-94		
5 Prices and Market Control	- Decontrol petroleum product pricing	- 93-94		
6 Public Enterprise Reform	 Privatization of 8 PE's (out of 43 targeted for privatization) Liquidation of 12 PE's (out of 17 to be liquidated) Reform of key PE's (esp UEC &, Posts and telecom agency) 	- 93-94 - 93-94 - 93-94	2 PE's already privatized	

Source: IMF (1993b)

5. Tanzania

BACKGROUND

The Arusha Declaration of 1967 pushed Tanzania into a highly controlled economy. Poor economic performance in the 1970s and the early to mid-1980s was blamed on the excessive controls. Economic liberalization was began by the Tanzanian Government with the adoption of the Economic Recovery Program (ERP) in 1986. This program was supported by an 18-month standby arrangement with the IMF and by a World Bank Multi-Sector Rehabilitation Credit.

The main objectives of ERP were positive growth of per capita income, low inflation rates, sustainable balance of payments position, price decontrol, and the liberalization of the exchange rate and interest rates. The financial sector was to be reformed with the aim of reducing the overall deficit and the growth of domestic credit.

The ERP policies were reinforced in 1987 through a structural reform program supported by IMF Structural Adjustment Facility and World Bank's Sectoral Adjustment Operation. These reforms were targeted at the rehabilitation of the economy's infrastructure especially the transport sector; improvement of the processing and marketing of agricultural products and inputs; and increased efficiency of the financial sector.

The performance under the ERP has been mixed. The real effective exchange rate of the Tanzania Shilling depreciated by 81 percent between 1986 and 1990. The "own funds" import scheme, originally introduced in 1984, was expanded and by 1988 accounted for one third of total imports. Under this scheme import licenses were provided freely to importers of any goods except a small number of goods controlled for health or security reasons. Trade liberalization began with the introduction of an Open General License (OGL) system for imports in 1988.

This system initially had a short positive list. The list was progressively raised and was eventually abolished at the end of 1990. At the beginning of 1991, only a short negative list of imports was ineligible under the OGL System.

An export retention scheme, originally introduced in 1982 was expanded in 1986. The Scheme was limited to non traditional exports and the retention rate was 35 percent for the eligible exports. A Duty Drawback Scheme was also used to promote exports. Despite the changes in the external sector, the balance of payments position remained weak. The current account deficit (excluding grants) increased from 76 percent of exports of goods and services and private transfers in 1986 to 79 percent in 1989/90. This was however largely a result of donor-financed imports necessary for the implementation of ERP.

Monetary policy under ERP has not been successful. Although credit to the Government declined, domestic credit exceeded program targets. Money supply grew at an average rate of 33 percent per year during the period compared to program targets of 14 percent. Interest rates were liberalized between 1986 and 1988 and by the end of the program period most of the rates were positive in real terms. The reform of the financial system was slower than planned.

The overall fiscal deficit declined from 7.9 percent of GDP in 1985/86 to 4.2 percent in 1989/90. A comprehensive tax reform was implemented during the period. The sales tax base was widened and the number of rates was reduced. The number of customs tariffs rates were reduced and the maximum applicable rates and number of exemptions were also reduced. The maximum rate of tariffs was lowered to 60 percent and the number of rates was reduced from 6 to 4. User charges on health and education services provided by the government were introduced. As personal income tax and capital gains tax were lowered during 1989/90, the excise tax was introduced.

Under the program, public employment was frozen with the exception of teachers and medical personnel. A comprehensive public Expenditure Review was completed in 1989. However, it was not operational by the end of the program. Expenditure control efforts during program period were not successful.

During the ERP steps were taken to improve public sector management. A systematic review of Government portfolio of development projects was started. Civil service reform was initiated with a civil service census in 1989 which resulted in the removal of 16,000 ghost workers. Measures to improve the efficiency of parastatals were started. A first step toward privatization was taken by identifying public enterprises which would be eligible for ownership by both local and foreign private investors.

A process of price decontrol was started during the program period. Marketing of agricultural goods was progressively liberalized. By 1990 farmers were free to sell their crops to any buyers. This however did not apply to the marketing of the traditional export crops, coffee, tea, cotton, cashew nuts, tobacco and pyrethrum. All agricultural prices, except for the traditional export crops, were decontrolled. Prices of manufactured imports and domestically produced goods were decontrolled. Only prices of 10 industrial goods remained under control and the marketing of only 16 products were confined to state trading companies.

The process of economic reforms was continued under the 1991/92 economic program. This program was supported by an ESAF arrangement and a final annual arrangements under SAF. It was also supported by disbursements under the World Bank's Agricultural Adjustment Operation and Financial Sector Adjustment Credit.

The objectives of the program were; Liberalization of exchange rate and trade regime; widening of the tax base and restructuring of public expenditure; reform of the financial sector; improvement of public sector reform including faster parastatal and civil service reforms; and continued liberalization of the marketing system.

The program targets under the SAF arrangement included; real GDP growth of 4.5 percent; inflation rate of 14 percent; overall fiscal deficit of 6 percent of GDP; current account deficit of 79 percent of

exports of goods and services and private transfers; and foreign exchange reserves equivalent to 8 weeks of imports. Targets were also set for net domestic assets of the banking system and ceilings were placed on credit to the Government and other public sector institutions.

MACROECONOMIC PERFORMANCE

The overall macroeconomic performance during the 1991/92 period was mixed. Real GDP grew by 3.8 percent in 1991, compared with the program target of 4.5 percent. Inflation rate was 21 percent against the target of 14 percent. The overall deficit at 2.9 percent of GDP compared favorable with the target of 6 percent. Repayment by the Government to the domestic banking system also exceeded the program targets. However, credit to other public sector institutions increased. This raised money supply in 1991/92 by more than 40 percent, compared to the program target of 13 percent.

The balance of payments position was weak in 1991/92. This was contributed to by the lower prices of traditional exports. The current account deficit rose to 84 percent of exports of goods and services and private transfers, exceeding the program target of 79 percent. Foreign exchange reserves however reached 14 weeks of imports by the end of 1991 compared to program target of 8 weeks.

CURRENT POLICY REFORMS

Fiscal Policy

The Tanzanian government has made substantial progress in the area of fiscal policy reform. Since 1989/90 the overall budget deficit (excluding grants) has been well below the reform program targets. For example in 1990/91 it was 4.1 percent of GDP compared to a program target of 9 percent while in 1991/92 it was 2.8 percent compared to a target of 6 percent. The government has also eliminated domestic bank borrowing to finance the deficit and has been making net repayments to the banking system.

The good performance on the fiscal side is partly due to the streamlining of tax administration which has led to an increase in the revenue/GDP ratio from 21 percent in 1989/90 to 22.1 percent and 23.5 percent in 1990/91 and 1991/92 respectively. Specific tax administration measures have included strengthening the customs and sales tax department (with technical assistance from UNDP, UNCTAD and the World Bank), rationalization of income tax, company tax, customs duties and sales tax, stiffened penalties for tax evasion, and improved training and staff rewards to strengthen tax collection.

On the expenditure side emphasis was placed on the maintenance of existing physical capital as opposed to beginning new projects. As earlier noted public employment was frozen with the exception of teachers and medical personnel.

Civil service reform has been slow. The program started with the development of a strategy for staff reductions. A total of 50,000 civil servants are to be retrenched but the implementation of the reform is expected to take three years.

Monetary Policy

The control of the growth in broad money has been poor with the growth rate in money and quasi money consistently exceeding program targets. For example in 1989 money supply grew by 41.9 percent compared to target of 18 percent. As a result inflation has been over 20 percent per annum.

A number of measures were taken in 1992/93 to prevent further monetary slippage. These included limiting commercial bank refinancing at the Bank of Tanzania and restructuring of the main commercial banks to ensure prudent lending practices.

Interest rates are not fully liberalized as the Government still sets a maximum lending rate. The Gov-

Table 5.1. Tanzania: Current Policy Implementation Matrix, 1989/90			
Policy	Objective	Date	Implementation
1 Fiscal Policy	- Contain deficit (excl grants, checks issued) below 10% - 9.5% in 89/9, 9% in 90/91 - Revenue as % of GDP to 20.3% - Expenditure as % of GDP 30.0% - Freeze staff level except in education & health - Begin civil service reduction	- cont - 89-90 - 89-90 - 90-91 - 91-92	7.0% in 89/90 4.1% in 90/91 21.0% in 89/90 28.0% in 89/90 implemented
2 Monetary Policy	- Limit increase in broad money to 18% - Tighten lending to marketing boards & coops - Maintain positive real interest rate on term deposits (12-60 mths) by quarterly adjustment of nominal rate	- 1990 - 89-90 - cont	41.9% in 89/90 Interest rate = 29%,inflation, rate = 19.5% in 89/90
3 Trade Policy			
Exchange rates	- Maintain constant real effective exchange rate	- cont	REER depreciation in 89/90
QRs & import licensing	- Expand OGL system to all categories of imports, subject to negative list of imports	- 89-90	Implemented
Tariff reform	- Reduce maximum tariff from 100% to 60% Number of tariff bands from 6 to 4	- 90-91	Implemented 1992
5 Price and Market Control	- Adjust prices of controlled items (10 categories) to prevent subsidies	- 89-90	Petrol prices increased by 60% July 1989
6 Public Enterprise Reform	 Restructure PE's in leather, textiles & edible oils sector Divest or close non-profitable PE's cont 		PE's in leather restructured

Source: IMF (1990)

ernment plans to use the discount rate as a tool of interest rate policy when the banking system becomes more competitive. The government also intends to begin using open market operations as a monetary policy tool.

Trade Policy

Progress has been made towards liberalizing the exchange rate following the licensing of foreign exchange bureaus which buy and sell foreign exchange at market rates. Even though the government has periodically devalued the official rate there remains a premium between the official rate and the bureau rate. This premium is to be eliminated and the exchange rate unified by 1993/94.

The government has greatly expanded the Open General Licensing (OGL) system. The system was converted from a positive list of eligible goods to a negative list of non-eligible goods in 1990. The negative list had been reduced to only goods prohibited for health and security reasons and some eight luxury goods. Meanwhile nontraditional exporters are allowed to retain 50 percent of their foreign exchange earning and this is to be increased to 100 percent in 1993. Imports below US\$ 5,000 are to be exempted from import licensing.

Tariff rates have been rationalized with the maximum rate being reduced from 100 percent in 1989/90 to 40 percent in the 1992/93 budget. The number of tariff bands has also been reduced from 6 to 4. Export incentives have been limited, with the major incentive being the duty drawback scheme on duty paid on imported inputs used in export production.

Investment Policies

Internal distribution controls for a number of goods have been eliminated as a means of encouraging investment. The government has also restructured a number of sectors to allow private sector participation for the first time. Company taxation has been reduced from 50 percent and 55 percent for resident and nonresident companies in 1990/91 to 35 percent and 40 percent respectively in July 1992. The rates are due to be harmonized in 1993/94. Finally, the

government has undertaken a review of the Investment Act and has began to identify means of simplifying industrial licensing and registration.

Price and Market Controls

Some 10 categories of goods remain under price control compared with 400 categories in the early eighties. Internal trade was also deconfined except for six goods restricted on health or security grounds. The government maintains a policy of constant price adjustment of price controlled goods to avoid or reduce subsidization.

Public Enterprise Reform

The public enterprise sector in Tanzania is large relative to that in neighboring countries. Public enterprise reform has however been slow. The government has only recently allowed private firms to enter into sectors previously reserved for public enterprises particularly the leather, textiles and edible oils sectors.

In 1992 all public enterprises were classified as either commercial or noncommercial and as essential or non essential. Plans are under way to divest all the commercial nonessential public enterprises beginning with 25 in 1993. Noncommercial, nonessential public enterprises are to be liquidated, with 20 planned for 1993, and essential noncommercial public enterprises will be incorporated into the budget. The remaining public enterprises will be given greater autonomy and their management held accountable. Already performance targets have been set for key public enterprises.

FUTURE POLICY REFORM MEASURES

In 1991/92 the Tanzanian government undertook a reform program supported by the IMF's Enhanced Structural Adjustment Facility (ESAF). The overall macroeconomic objectives of the program for the period 1992/93 to 1994/95 are to achieve an economic growth rate averaging 5 percent per year, reduce inflation to around 5 percent in 1994/95, increase government savings to 0.8 percent of GDP and

Table 5.2. Tanzania: Current Policy Implementation Matrix, 1991/92-1993/94				
Policy	Objective	Date	Implementation	
1 Fiscal Policy	- Contain deficit (excl grants, checks issued) at 6% - No net domestic bank financing of deficit	- cont - cont	22.8% (estimated) in 91/92 Net repayment to banking system in 91/92	
2 Monetary Policy	- Replace multiple fixed interest rates by a maximum lending rate, while allowing comm banks to set deposit rate autono mously - Apply same interest rate policy across financial sector - Replace maximum lending rate by monetary policy instruments of Bank of Tanzania	- mid 91 - mid 91 - mid 94	Implemented Sep 91 Implemented	
3 Trade Policy Exchange rates QRs & import licensing Export incentives	 Achieve and maintain equilibrium exchange rate Prevent REER appreciations Begin modalities to licensing forex bureaus Eliminate official forex allocations except for a limited number of goods Shorten OGL negative list of restricted items to limited number of luxury, health/security goods Eliminate all QR's except for health/security goods Strengthen duty differentials and streamline export procedures 	- mid 94 - cont - Jul 91 - Jan 92 - Jan 93	10% REER depreciation in 91/92 Bureaus licensed and began operations 21 April 1992 Implemented	
5 Price and Market Control	Review existing corporate laws & Regulations to minimize and simplify their administration Allow entry of private firms to sectors reserved for PE's	- mid 92 - end 91	Implementation postponed to 93/94	
6 Public Enterprise Reform	 Classify Pe's into commercial & non commercial Incorporate costs of non commercial PE's considered essential into budget (within overall budgetary and employment targets) Divest all commercial PE's except those considered essential Give autonomy to remaining PE's & hold management accountable Abolish PE holding companies 	- 92/93 - cont - mid 92	classified early 1992 Performance targets set for key PEs	

Source: Tanzania, IBRD and IMF (1991)

reduce the current account deficit while increasing the level of official reserves.

Fiscal Policy

The overall fiscal policy objective for the program period is to maintain a tight fiscal stance while improving the coverage of the government budget. The target is to maintain the budget deficit below 6 percent of GDP but it is acknowledged that this may not be achieved due to plans to include all foreign financed expenditures in the government budget. A

policy of zero domestic bank financing of the deficit is planned whether the deficit target is met or not.

To broaden the revenue base a value added tax is to be introduced in 1994 replacing the current sales tax. Discretionary tax exemptions are set to be totally eliminated in the 1994/95 budget, while the two rates of company taxation are to be harmonized. To control wage expenditures, about 50,000 civil servants are to be retrenched between 1992/93 and 1994/95.

Monetary Policy

The major monetary policy objective is to restructure the many large government owned financial institutions. The possibility of incorporating the private sector in the ownership of these institutions is to be explored. To maintain a tight monetary stance as a means of controlling inflation, commercial bank financing at the Bank of Tanzania will be limited and banks will be expected to become independent of the Bank of Tanzania and rely on deposit mobilization. Interest rate policy is to be shifted towards the use of the discount rate as the primary tool of interest rate determination. However, the ceiling on lending rates

is to be maintained and will only be eliminated when competition develops in the financial system.

Trade Policy

Under trade policy, the premium between the official exchange rate and the bureau rate is to be gradually reduced with the objective of moving to a single exchange rate. No specific target date has been set for exchange rate unification. The negative list of restricted goods under the Open General License system is to be shortened to a minimum number restricted for health and security reasons and a few luxury goods. Thus quantitative restrictions on im-

Table 5.3. Tanzania: Policy Matrix, 1992/93-1994/95				
Policy	Objective	Date	Implementation	
1 Fiscal Policy	- Maintain overall budget deficit below 6% of GDP - No domestic bank financing of budget deficit - Introduce Value Added Tax - Harmonies and reduce the two rates of company taxation - Eliminate discretionary tax exemptions - Contain recurrent expenditure at 24% of GDP - Retrench 10,000 out of 50,000 redundant civil servants	- 93/94 - 93/94 - Jan 94 - Jul 93 - 94/95 - cont - 92/93		
2 Monetary Policy	 Use discount rate as primary instrument of interest rate policy Strictly limit refinancing by Bank of Tanzania Streamline NBC operations Finalize restructuring plans for CRDB, PZB and TIB 	- 92/93 - 92-95 - 92/93 - Dec 92		
3 Trade Policy				
Exchange rates ORs & import	Reduce differential between official and bureau exchange rates Begin transition to single exchange rate Allow full forex retention for nontraditional exporters - Further shorten OGL negative list	- 92/93 - 93/94 - 1 st 1/4 1993 - Jan 93		
licensing	- Increase threshold for import licenses to US\$5,000	- Jul 92		
Export incentives	- Eliminate BET licensing of exports - Ensure adequate budgetary provision for duty drawback scheme	- end 92 - Jul 92		
5 Investment Policies	 Review investment act, limit scope of industrial licensing, rationalize registration and business licensing Harmonies and reduce company taxation rates 	- end 93 - 93/94		
6 Public Enterprise Reform	 Divest or liquidate 25 PEs under negotiation Liquidate minimum of 20 enterprises Divest of at least 5 profitable enterprises Absorb noncommercial PEs into government Introduce performance contracts for remaining commercial PES 	- 92/93 - 92/93 - 92/93 - end 92 - 92-95		

Source: Tanzania, IBRD and IMF (1992)

ports will have been virtually eliminated. Following the major tariff reform of 1992 there are no plans for further reform up to 1995. To promote exports export licensing and the duty drawback scheme are to be simplified.

Investment Policy

To promote local and foreign investments, the investment act is being reviewed particularly with a view to simplifying and reducing procedures for industrial licensing. As already noted, the company taxation rates for resident and nonresident companies are to be harmonized. In the next five years (from 1992/93) the approximately 300 commercial public enterprises are to be privatized. However, the number of enterprises to be sold during each year has not been established except for those scheduled for sale in 1992/93. Noncommercial public enterprises that are to be absorbed into the government will undergo cost-cutting and efficiency improvement programs and performance monitoring. By the end of 1995 performance contracts are to be drawn up for all noncommercial public enterprises.

6. Kenya

BACKGROUND

Kenya's structural adjustment programs date back to the late 1970s. The analysis here is confined to adjustment in the 1990s starting with the three year (1989-91) ESAF program agreed with the IMF in 1989. This program was intended to promote an export-led growth by broadening earlier adjustment initiatives, especially those outlined in the Sessional Paper No. 1 of 1986.

The aim of the 1989 program was to achieve positive real per capita GDP, reduce the current account deficit, contain the rate of inflation, and to accumulate foreign exchange reserves. These aims were to be achieved by: tighter fiscal and monetary policies; solving structural problems related to revenue and expenditure in the budget; restructuring of parastatals; implementation of market-oriented policies; and structural reforms in the financial, agricultural, trade and industrial sectors.

The macroeconomic targets during the first year of the program were not fully met. Real GDP grew at 5 per cent and therefore met the target. But inflation rate at 10.1 per cent was higher than the program target of 8 per cent. The current account deficit (excluding official transfers) was 7.4 per cent of GDP, compared to the program target of 4 per cent. The overall balance of payments recorded a surplus of SDR 52 million as a result of high official capital inflows. There was significant progress in the liberalization of trade and in financial sector reforms.

The performance of the economy during the second year of the ESAF program (1990) was also mixed. Real GDP declined to 4.5 per cent and the inflation rate of 17.7 per cent at the end of 1990 was substantially higher than the target of 7.5 per cent. The rise in inflation was a result of rapid expansion of money supply, increases in domestic oil prices, increases in

indirect taxes and the depreciation of the nominal effective exchange rate. The balance of payments position remained weak during the year. However, the current account deficit was 1 per cent of GDP and well above the target of 4.4 per cent. Foreign exchange reserves was equivalent to 1.4 months of imports, compared with the program target of 2 months of imports. The overall deficit (including grants) was 4.7 per cent of GDP in 1989/90. This was marginally higher than the program target of 4.6 per cent.

There was substantial progress in the implementation of structural policy measures in 1990. The trade regime was liberalized by removing quantitative restrictions on 35 per cent of the few imports still subject to controls. These goods were to be protected only by tariffs thereafter. Export promotion policies which were implemented included the introduction of a Duty and VAT import exemption scheme and the establishment of a private Export Processing Zone. Some 80 items under the General Price control Order and 9 items under the specific order were decontrolled in 1990.

Several measures were implemented on the fiscal side. The tax base was broadened and corporate tax rate was reduced. Import duties were lowered and VAT rates on imported and domestic goods were rationalized. The State Corporation Act was amended to enhance the accountability of the corporations. Kenya Airways and National Cereals and Produce Board were restructured. One thousand Kenya Airways employees were retrenched. On the monetary side, interest rates were liberalized.

In 1991, the Kenyan Government requested support under a third annual ESAF arrangement for the 1991/92 - 1993/94 reform program. The objective of the program was to strengthen the country's external position and to provide favorable macroeconomic conditions conducive for structural reforms necessary for economic growth.

Under the program real GDP was projected to grow at over 5 per cent per year. The rate of inflation was projected to be 5 per cent by 1993 and the targets for current account deficit (excluding official transfers) and foreign exchange reserves were set at 4 per cent of GDP and an equivalent of 2.9 months of imports in 1993/94, respectively. Targets for budget deficits (excluding grants) were set at 5.1 per cent and 3.8 per cent of GDP for 1991/92 and 1992/93, respectively.

These targets were to be achieved through retrenchment in public sector employment and reduction in university student intake. Other objectives included: restructuring and privatization of state corporations; continuation of import liberalization and removal of anti-export bias; and improved incentives for production and investment through the elimination of General Price Order and other market regulations.

The economy deteriorated significantly in 1991. Real GDP grew by 2.3 per cent and inflation grew at an annual average of 19.6 per cent. Current account deficit (including official transfers) improved to 3.2 per cent of GDP, but gross reserves fell to 1.1 months of imports. Significant arrears on external debt appeared for the first time in Kenya's history.

The poor implementation of macroeconomic policies and inadequate implementation of structural measures led to the withholding of quick disbursement funds by the donors in November 1991. It also led to the failure of Kenya and the IMF to conclude the third annual arrangement under the ESAF. Some commitments were cancelled or delayed between 1992 and May 1993. The donors made it clear to the Government of Kenya that no funds were forthcoming unless macroeconomic stability was restored and a genuine commitment to the implementation of structural reforms was shown.

MACROECONOMIC PERFORMANCE

The period between July 1991 and March 1993 was one of major macroeconomic instability in Kenya. Real GDP grew by 0.4 per cent in 1992, the lowest ever recorded. The rate of inflation was 34 per cent in December 1993 and had accelerated to an annual rate of over 100 per cent by June 1993. Arrears on exter-

nal debt had accumulated to US\$ 686 million by April 1993 and foreign exchange reserves was equivalent to 1.5 months of imports. The budget deficit (excluding grants) of 4.8 percent of GDP was close to the program target in 1991/92, but rose to 10.4 per cent of GDP in 1992/93.

The poor macroeconomic performance can be attributed to a number of factors. A severe drought and the multiparty elections in 1992 are some of the factors. The later contributed to loss of monetary control. The withholding of donor support created severe foreign exchange shortages which led to a major import compression. There was also a relaxation of fiscal controls and reforms in grain marketing and trade and foreign exchange liberalization were stalled. A major move toward the restoration of macroeconomic stability and structural reforms began in early 1993.

CURRENT POLICY REFORMS

Fiscal Policy

The 1991/92 - 1992/93 program targets for overall budget deficit (including grants) was 2.0 percent of GDP. In 1991/92 the deficit was contained at 3.7 percent but only after drastic expenditure curtailment measures were taken at the beginning of 1992. In 1992/93 the deficit jumped to 8.1 percent of GDP which was well above the program target.

Although the overall budget performance has been poor some progress has been made in increasing the efficiency of tax collection including the introduction of Personal Identification Numbers for taxpayers, improvements in collection of duties and streamlining of VAT. The result has been a widening of the tax base and an increase in tax elasticity.

On the expenditure side university enrollment has been reduced and a civil service reform program has been implemented. Progress in reducing the size of the civil service wage bill has however been slow with only 3959 workers retired without replacement. Development expenditure is under more efficient control following adoption of an improved Public Investment Program.

Monetary Policy

During the early part of the 1991/92 - 1993/94 program period lax licensing of financial institutions, ineffective enforcement of prudential regulations and failure to control lending to distressed commercial banks led to destabilizing and inflationary monetary expansion. The Central Bank began to contain liquidity expansion in 1993. The measures taken included raising the cash ratio from 6 percent to 12 percent between April and October, sales of up to KShs 5 billion of treasury bills per week and maintaining

positive real interest rates on these bills. Interest rates were fully liberalized in 1991 but due to the high inflation rate in 1993 the interest rates were largely negative in real terms.

The Central Bank has also taken a number of measures to stabilize financial markets. These include: liquidation of 10 financial institutions; placing 2 of such institutions under statutory management and revoking the license of one; special audits of 19 financial institutions; establishment of a new clearing house; and raising the minimum capital to assets ratio.

Table 6.1. Kenya: Current Policy Implementatoin Matrix, 1991/92-1993/94				
Policy	Objective	Date	Implementation	
1 Fiscal Policy	 Reduce budget deficit (including grants) to 2.0% Maintain budget deficit at or below 2.0% Reduce civil service (grades A-G) by 2% of dec 91 level Increase share of expend to non wage operations & mainten Limit univ intake to 10,000, raise charges, reduce loans 	- 91/92 - 92/93 - 91/92 - 91/92- - 1991	91/92 = 3.7% 92/93 = 8.1% slow implementation (3959 retired by Nov 93)	
2 Monetary Policy	 Allow interest rate to be market determined Begin open market operations & generalized use of monetary policy instruments 	- end 91 - 1991	fully implemented fully implemented	
3 Trade Policy				
Exchange rates	- Manage exchange rate flexibly to ensure competitiveness	- cont	floated Oct 1993	
QRs & import licensing	- Shift eligible items in IIIc to IIIb with equivalent or lower tariff	- Jul 91	import licensing abolished by may 93	
Tariff reform	 Reform tariffs to reduce level of variability of effective protection Review and reduce tariff exemptions for non exporters 	- Jul 91 - Jul 91	max tariff = 60% No of tariff bands = 7 (jun 93)	
Export incentives	- Begin duty-VAT exemption scheme for direct exporters = Increase eligible products every qtr for first year	- Nov 90 - cont	implemented expanded to indirect exporters by may 93	
	- Implement grant scheme to finance consultancy services for exporters	- Dec 91	EPC established KEAS launched	
5 Price and Market Control	 Extend price decontrol to additional items Abolish general order & transfer items to specific orders 	- Jun 92 - Jun 92	205 items decontrolled by Nov93, 2 petroleum & pharmaceutical product remain	
6 Public Enterprise Reform	 Liquidate 18 non-operating PEs currently under receivership Liquidate at least 5 non-viable, non strategic PEs Full privatization of at least 2 viable,non-strategic PEs Divest at least 10 Non-strategic, viable PEs Audit all PEs Restructure Kenya Airways & KP&TC 	- Jul 91 - Dec 91 - Dec 91 - jun 92 - 91/92 - cont	by Nov 93 20 - Liquidated 6 sold through receivers 5 sold under pre-emption 5 privatized vie NSE 2 sold by competitive bidding Kenya Airways restructured	

Source: Kenya, IBRD and IMF (1991)

Trade Policy

The key exchange rate objective of the 1991/92 - 1993/94 program period was to maintain competitiveness through a flexible exchange rate. This was largely achieved by periodic devaluations. In 1993 the exchange rate was devalued by over 70 percent. Exchange management was gradually liberalized over the program period culminating in a full flotation in October 1993 when the official exchange rate was unified with the inter bank rate.

Quantitative restrictions and exchange controls were greatly liberalized over the program period with responsibility of foreign exchange allocation being transferred to commercial banks from the central bank. Foreign exchange retention accounts were introduced for exporters. Quantitative restrictions were abolished. The import licensing system was abolished in 1993 with the exception of a short negative list of prohibited and restricted imports.

Over the program period tariffs were further rationalized to reduce the variability of effective protection across industries. The number of tariff rates have been reduced to only 7 (including the zero rates). The levels of tariffs have also been reduced with the highest tariff rate falling from 100 percent at the beginning of the program period to 50 percent in June 1993. However, revenue pressures forced a 25 percent across the board tariff increase in September 1993.

The previous export compensation scheme was phased out and replaced with a duty and VAT exemption scheme. This exemption scheme, which initially only covered direct exporters, was extended to indirect exporters as well as producers of inputs.

Over the period, an Export Promotion Council was set up and two export financing schemes providing subsidized credit were also set up with donor backing. Exporters under the Manufacturing Under Bond scheme were allowed to sell in the local market (subject to normal duties) to reduce their risk factor. Export processing zones were also established during the period.

Price and Market Controls

Price controls were virtually abolished during the program period with petroleum and pharmaceutical products as the only items remaining under control

Subsidies to electricity consumers were reduced with periodic increases in electricity tariffs. Petroleum product prices were raised in line with the depreciation of the Kenya shilling. Virtually, all the prices of agricultural products were also decontrolled.

Public Enterprise Reform

Efficiency of public enterprises was to be increased over the program period. This was to be done through: privatization of ownership or putting in place professional management teams; reform and restructuring; appropriate regulation of natural monopolies; and implementation of complementary pricing, competition and general regulatory policies.

Public enterprises were thus classified as strategic or nonstrategic and as viable or nonviable. Strategic public enterprises, those vital to national security or providing essential goods, were to be restructured and their management improved. Nonviable, nonstrategic public enterprises were to be liquidated while viable nonstrategic public enterprises were to be privatized.

The implementation of these reforms has, however, been slow. There still remain 190 nonstrategic public enterprises of which only 25 are programmed for sale by December 1994. A total of 12 viable public enterprises have been privatized while 26 nonviable ones have either been liquidated or sold through receivers.

Implementation of management reforms and restructuring of strategic public enterprises has also been slow with only Kenya Airways being fully restructured. Diagnostic studies have been undertaken on restructuring Kenya Ports Authority, Kenya Railways, Kenya Posts and Telecommunications, Kenya Tea Development Authority and the National Cereals and Produce Board.

FUTURE POLICY REFORM MEASURES

The objective of the 1994 - 1996 program is to increase real GDP growth to 5-6 percent per annum in 1995 and 1996. This is to be achieved through higher private-sector investment in response to more stable macroeconomic conditions, increased efficiency following the restructuring of public enterprises and a higher level of savings resulting from fiscal adjustment and positive real interest rates. The current account deficit is also programmed to decline to around 1 percent of GDP in 1996.

Fiscal Policy

Fiscal policy will clearly be of crucial importance if this objective is to be met. The budget deficit (including grants) is targeted to be eliminated by 1995/96. In 1994/95 the budget deficit is targeted to be 1.8 percent of GDP. Revenue is programmed to increase to 24 percent of GDP in 1995/96. This is to be achieved by broadening the tax base while reducing maximum rates on import duties, income taxes and VAT. Tax exemptions to public enterprises are to be removed and VAT coverage in the service sector will be further expanded. Collection of import duties will be improved by an improved pre-shipment inspection of imports to be implemented in January 1994.

Total expenditure as a percentage of GDP is expected to fall to 26 percent in 1994/95 and 1995/96 due to reduction of interest charges, elimination of subsidy to National Cereals and Produce Board, rationalization of expenditures and civil service retrenchment. About 26,000 civil service positions are to be eliminated in 1993/94. This will be followed by further reductions of 16,000 per year up to 1996/97. By 1995/96 civil servants benefits are to be monetized.

Monetary Policy

The aim of monetary policy will primarily be to contain inflation and maintain a sustainable external position. Liquidity expansion is to be contained through market interventions using treasury bills, changes and enforcement of cash ratios and limit to access to central bank credit. Secondary markets will be developed for treasury bills and commercial banks will be appointed as agents for their sale. Cash ratios will be extended to the consolidated accounts of commercial banks with subsidiary Non-Bank Financial Institutions by June 1994. To improve the soundness of the financial system the banking act is to be reviewed in 1994 and any necessary changes will be included in the 1994 finance bill. By June 1996 government share holding in commercial banks will have been reduced to a minority share holding.

Trade Policy

Following the recent exchange rate liberalization a stable exchange rate will be maintained during 1993/94 - 1995/96 by pursuing sound fiscal and monetary policies assisted by exchange rate interventions (buying and selling foreign exchange in the interbank market). The temporary 25 percent increase in import duty rates is to be reversed by July 1994 and the long run goal is to reduce the number of tariff rates to 4 and the maximum tariff to 30 percent by July 1997.

To improve trade flows (and revenue collection) customs procedures are to be streamlined in 1994. Exporters are to be given further incentive by the elimination of export taxes and export licensing (except for a short negative list established for security, health and environmental reasons) by July 1994.

Price and Market Liberalization

The remaining price controls on petroleum fuels and selected pharmaceutical drugs are to be lifted by July 1994. The number of licenses and the level of fees for start ups of retail and wholesale businesses will be reduced by July 1994 so as to facilitate higher output and job creation. The statutory monopoly rights of the Kenya National Trading Company (KNTC) and the Kenya Planters Cooperative Union (KPCU), will be eliminated by March 1994.

Table 6.2. Kenya: Policy Matrix, 1994/96			
Policy	Objective	Date	
1 Fiscal Policy	- Raise revenue/GDP ratio to 23% in 93/94 & 24% in 95/96 - Reduce Expenditure/GDP ratio to 29% in 93/94 & 26% subsequently		
2 Monetary Policy	 Control Net Domestic Assets through open market operations, cash ratio & limits on CBK rediscounting Extend cash ratios to consolidated accounts of banks with NBFIs Develop secondary market for government securities Divest government holdings in commercial banks 	January 94 June 96	
3 Trade Policy			
Exchange rates	 Intervene in foreign exchange market to maintain stable exchange rate Pursue sound monetary and fiscal policy 	continuous	
Tariff reform	- Maximum duty rate = 30%, No of tariff rates (incl zero) = 4	July 97	
Export incentives	- Eliminate export taxes & reduce export licensing to short negative list	July 94	
5 Prce and Market Control	 Lift remaining controls Eliminate statutory monopoly of parastatals (esp KNTC & KPCU) Decontrol of petrol product pricing 	July 94 May 94	
6 Public Enterprise Reform	 Eliminate indirect subsidies to PEs Prepare & enforce Performance contracts with strategic PEs Bring 25 non-strategic Pe's to point of sale Dispose of half of remaining GOK equity in PE's 	96/97 June 95 December 94 1995 - 1996	

Source: Kenya, IBRD and IMF (1993)

Public Enterprise Reform

The objective of public enterprise reform is to ensure that strategic public enterprises are commercially viable and to substantially divest Government equity in nonstrategic ones. Strategic public enterprises are to have performance contracts by June 1995 and the government expects to eliminate all indirect subsidies, such as tax exemptions, below market interest rates and waivers of guarantee fees on loans from the government, by 1996/97.

Tariff adjustments will be made continuously to eliminate subsidies to public monopolies. Out of the remaining 190 nonstrategic public enterprises 25 are to be brought to the point of sale by the end of 1994 while approximately 40 enterprises are to be sold per year in 1995 and 1996.

7. Ethiopia

BACKGROUND

Ethiopia is a relatively large country covering an area of 1.2 million square kilometers and having a population of over 53 million people. The country is characterized by low income levels and difficult social conditions. These problems have been worsened by civil wars, intermittent severe droughts and inappropriate policies based on central economic planning. This has led to poor economic performance with per capita GDP declining at an annual average rate of 1.6 percent between 1980 and 1991.

However, in mid-1991 the Transitional government of Ethiopia (TGE) came to power following the resolution of a number of civil conflicts. The TGE broke with the past and began to introduce a democratic and decentralized political system as well as implementing structural reforms. In late 1992 the TGE adopted a stabilization and structural adjustment program for the period 1992/93 - 1994/95. This program was supported by a Structural Adjustment Facility from the IMF, the World Bank's Emergency Recovery and Reconstruction Project (ERRP) and by Paris Club debt rescheduling.

Given the existing external and internal imbalances the program emphasized macroeconomic stabilization since structural reforms were unlikely to succeed in an unstable environment. The program set the following macroeconomic targets:

- real GDP growth of 6.5 percent in 1992/93 and 5.8 percent thereafter;
- containing inflation at 24.4 percent in 1992/93 and reducing it to 8.0 percent by 1994/95;
- an external current account deficit of 3.3 percent in 1992/93; and
- raising the number of weeks of imports coverage of gross official reserves from 4.4 weeks in 1991/ 92 to 7.2 weeks in 1992/93.

The program also included prudent fiscal and monetary policies, correction of the overvalued official exchange rate, maintenance of positive real interest rates, and tax, investment, labor and public enterprise reforms.

MACROECONOMIC PERFORMANCE

Overall macroeconomic performance under the program has been good. Real GDP grew by an estimated 7.6 percent in 1992/93 compared to the target of 6.5 percent. This performance is attributed to a strong resurgence of the agricultural sector which in turn had secondary positive effects on the manufacturing and services sectors. Inflation measured by the retail price index is estimated at 10.2 percent for 1992/93 compared to 21 percent in 1991/92 and a program target of 24.2 percent.

The current account deficit at 13.1 percent of GDP was lower than programmed, primarily reflecting an import shortfall. There was also some recovery of exports in 1992/93 with coffee export volume almost doubling due to favorable weather and exchange rate devaluation. However, the overall balance of payments deficit at SDR 56 million was larger than the targeted SDR 4 million though much less than the SDR 151 million deficit of 1991/92.

CURRENT POLICY REFORMS

Fiscal Policy

As noted earlier removal of internal imbalance was crucial to success of the adjustment program, therefore, an important objective of the 1992/93 program was to contain the budget deficit which had risen to 16 percent of GDP in 1990. The program target was

to be achieved by raising revenue (excluding grants) to 19.8 percent of GDP (from 15.7 percent in 1990/91) and limiting total expenditure to 43.7 percent of GDP. Another crucial objective of the program was to reduce domestic bank financing of the budget deficit which was 11 percent of GDP in 1989/90 and 8.5 percent of GDP in 1991/92. The target for 1992/93 was 3.0 percent of GDP.

The overall budget deficit for 1992/93 is estimated at 10.2 percent of GDP. This is lower than the targeted deficit of 11.8 percent due to expenditure shortfalls rather than an increase in revenue. Revenue as a percentage of GDP is estimated to have been 16.7 percent while total expenditure was 33.8 percent of GDP.

The large shortfall in expenditure largely reflects shortfalls in external grants and loans as well as the elimination of most budgetary subsidies. On the revenue side, a number of structural changes were made including rationalization of income tax, customs duties and profits taxes. Non-coffee export taxes were also eliminated as were capital charges on most public enterprises.

The target of keeping bank financing of the deficit at 3 percent of GDP was not met with the actual figure estimated at 3.8 percent. However, this was a sharp reduction from the previous years and must have contributed to the fall in the inflation rate.

Monetary Policy

In the past, bank lending in Ethiopia was determined by government priorities with around 90 percent of credit being directed to the public sector without regard for productivity of resulting investments. The monetary policy objective of the 1992/93 program was thus to ensure reasonable credit expansion to meet the needs of productive sectors, particularly in the private sector. The policy, at the same time, was to avoid pressures on prices and the balance of payments.

Broad money was programmed to grow at 19.6 percent. Interest rates in Ethiopia have been negative in real terms since 1988. A second important monetary policy objective was, therefore, to maintain positive real interest rates.

The program target for expansion of broad money is likely to have been met with the actual growth estimated to have been 19.2 percent in 1992/93. However, bank credit to both the government and non government sectors exceeded program targets. The minimum interest rate on savings deposits was raised from 2 percent in 1991/92 to 10 percent in 1992/93 while the maximum lending rate was raised from 10 percent to 15 percent. The objective of achieving positive real interest rates was thus largely met.

Trade Policy

By 1991 the trade regime in Ethiopia remained highly restrictive. The 1992/93 program, therefore, incorporated a wide number of trade liberalization measures. The most important of these was a devaluation of the official exchange rate so as to increase Ethiopia's international competitiveness, reduce parallel market exports (which in 1991 accounted for around 15 to 25 percent of coffee exports), and to improve income distribution given the predominance of agricultural exports from peasant farming. Other planned liberalization measures included: reduction of quantitative restrictions and their replacement with tariffs, reduction of tariff rates in coordination with tax reform, and export policy reform.

Significant progress was made in achieving these objectives. On October 1, 1992 the official exchange rate was devalued by 58.6 percent in US dollar terms and since May 1, 1993 foreign exchange auctions have been carried out every fortnight. The marginal rate established at these auctions is now used for all foreign exchange receipts and most payments, with the official rate being used only for payments for essential items.

Import licensing is now automatic though the foreign exchange auction is still subject to a large negative list of restricted items. There was substantial progress in tariff reform with the maximum tariff reduced from 230 percent to 80 percent and the number of rates reduced from 25 to 10. All but two specific rates were also converted into ad valorem rates. To promote exports a number of structural impediments to exports were lifted. These include the streamlining of export licensing and the reduction of the coffee license fee, the implementation of an export verification system, and the expansion and administrative simplification of the import duty drawback scheme.

Public Enterprise Reform

Given the centrally planned nature of the Ethiopian economy in the past the public enterprise sector is naturally very large and pervasive. The first step in reforming the public enterprise sector was to break down the large sectoral corporations which were previously under the ministry of industry. This was done in November 1992 when the sectoral corporations were broken down into almost 100 specific public enterprises each with its own board of directors. A public enterprise law was enacted to provide for the

operation of public enterprises as commercial autonomous entities under regular company law.

Efforts to divest public enterprises have, however, been slow. A number of state farms were dissolved and a few enterprises such as the Ethiopian Building and Construction Corporation and the Marine Transport Authority were abolished. In 1992 the remaining public enterprises were designated as strategic or nonstrategic. In the next three years the government plans to sell a large number of the nonstrategic enterprises including all retail shops, at least 29 hotels and restaurants, 90 state farms and 60 manufacturing enterprises.

Table 7.1. Ethiopia: Current Policy Matrix, 1992/93-1994/95				
Policy	Objective	Date	Implementation	
1 Fiscal Policy	- Maintain overall Fiscal Deficit at 11.8% of GDP - Maintain bank financing of deficit at 3% of GDP - Implement tax system review - Limit Security-related spending - Conduct first round of public expenditure review	92/93 92/93 92/93 cont May 93	10.2 % in 1992/93 3.8% in 1992/93 implemented	
2 Monetary Policy	Strengthen bank supervision and ensure capitalization Increase bank autonomy and allow private banks Introduce new interest rate structure which eliminates subsidies and discrimination by sector	cont 92/93- 92/93	to be implemented in 1993/94 implemented	
3 Trade Policy				
Exchange rates	- Adjust exchange rate to eliminate overvaluation	cont	58.6% devaluation in Oct 92	
QRs & import licensing	- Move imports to an OGL system	92/93	implemented	
Tariff reform	- Revise Tariff structure to rationalize effective protection	92/93	maximum tariff reduced no of zero rated items reduced	
Export incentives	Eliminate export subsidies and import surchargesRevise export price verification systemEliminate export taxes except on coffee	92/93 92/93 92/93	implemented implemented implemented	
4 Investment Policies	- Eliminate discretionary credit and foreign trade treatment of the private sector	92/93	implemented	
5 Price and Market Control	- Decontrol prices other than monopoly produced and a few essential goods	92/93	implemented June 93	
6 Public Enterprise Reform	 Categorize PE's by present condition and ultimate status Sell Pe for which studies are complete or not needed Restructure and/or privatize remaining PEs 	92/93 92/93 cont	completed	

Source: Ethiopia, IBRD and IMF (1992)

Pricing and Market Policies

Price controls and regulations on distributions have existed for a long time in Ethiopia. Price controls were imposed at the ex-factory, wholesale and retail levels. Distribution was previously controlled by the official distribution agencies. In 1991 the TGE embarked on a program to lift most of these controls and the 1992/93 program planned for the removal of most of the remaining controls.

In 1992 government controls over pricing policy of most public enterprises were abolished and most retail and ex-factory prices were decontrolled. The remaining retail price controls are on sugar, petroleum and pharmaceutical products, and spare parts as well as public utility tariffs. Ex-factory and wholesale controls remain for four textile items, nails, corrugated roofing, reinforced bars for construction and cement. The government maintains a policy of keeping the remaining controlled items priced at import imparity.

FUTURE POLICY REFORM MEASURES

The latest reform program adopted by Ethiopia covers the period 1993/94 to 1995/96. This program is supported by a three year Structural Adjustment Facility (SAF) from the IMF for an amount equivalent to SDR 49.42 million. Ethiopia drew SDR 14.12 million and SDR 21.2 million in the first and second annual arrangements respectively. The broad macroeconomic objectives of the program are: real GDP growth of 5.3 percent, inflation below 6 percent, a current account deficit of 5.3 percent and gross official reserves at 15 weeks of imports, all by 1995/96.

Fiscal Policy

In the area of fiscal policy, the budget deficit (including grants) for 1993/94 and 1994/95 is expected to remain at high levels (9.7 and 11.5 percent of GDP respectively). This is due to the additional outlays needed for rehabilitation, reconstruction and resettlement as well as for basic economic and social services. However, the deficit is to be met from in-

creased concessional foreign assistance and debt relief such that bank financing of the deficit is to be eliminated by 1994/95. By mid 1994 customs, sales, excise and corporate taxes are to be reformed for greater efficiency.

Monetary Policy

Under the 1993/94 to 1995/96 program the TGE intends to expand the use of indirect instruments of monetary policy, such as treasury bills and bonds, so as to achieve more effective control of the money supply. Interest rates are to be reviewed every quarter to ensure they remain positive in real terms and are to be fully liberalized by 1995/96. The supervision of commercial banks, through the National Bank of Ethiopia is to be strengthened. The monetary reform is to be fully implemented by the end of the program period.

Trade Policy

The trade regime is to be further liberalized by maintaining a narrow negative list of goods not applicable for foreign exchange from the auction system. Tariff rates will be reduced further by the end of 1994 and the tariff structure will be revised to reduce the dispersion in the rates of effective protection. Constraints to exports will be further reduced in 1993/94. The duty drawback scheme will also be broadened. However, these measures will still leave Ethiopia's trade regime less than fully liberalized. Measures which are still required to liberalize the regime include exchange rate unification and the removal of export licensing requirements.

Public Enterprise Reform

In the area of public enterprise reform the government plans to sell a large number of the nonstrategic enterprises including all retail shops, at least 29 hotels and restaurants, 90 state farms and 60 manufacturing enterprises over the next three years. In 1993/94 public enterprises are to be given more autonomy and are to lose their preferential access to foreign exchange and bank loans. Public enterprise tax ar-

rears are to be eliminated and the government will no longer guarantee their domestic borrowing.

Price and Market Liberalization

Agricultural productivity is to be improved, particularly through strengthened and expanded agricultural research and extension services. The energy sector reforms will involve the formulation of a national

energy policy and strategy at the initial stage. Transport and telecommunications policy will emphasize increasing capacity and competition. Thus private freight forwarders, clearing agents and transport agents are to be licensed. To improve housing supply, government owned houses are to be sold to the private sector and the private sector will be encouraged to develop a private urban housing market.

Table 7.2. Ethiopia: Policy Matrix, 1993/94-1995/96			
Policy	Objective	Date	Implementation
1 Fiscal Policy	- Eliminate bank financing of consolidated government deficit - Reform customs, sales, excise and corporate taxes - Eliminate customs and tax arrears of PE's - Reduce security-related spending as % of GDP - Undertake full public expenditure review	- 94/95 - 93/94 - 93/94 - cont - 93/94	
2 Monetary Policy	- Introduce indirect monetary control instruments - Strengthen bank supervision by NBE - Periodically (1/41y) review interest rate to maintain positive real interest rate - Allow interest rate to be market determined	- 95/96 - cont - 95/96	
3 Trade Policy			
Exchange rates	- Maintain competitive exchange rate	- cont	
QRs & import licensing	- Narrow negative list of goods applicable for forex auctions - Streamline import licensing procedures	- cont - May93-	
Tariff reform	 Revise tariff structure to reduce dispersion in effective protection rates and to reduce tariff levels Reduce duty exemptions and concessions for non-exporters 	- end 94 - end 94	
Export incentives	 Operationalize and widen duty drawback system Remove regulatory, marketing and customs constraints Reduce coffee export license fee 	- 93/94 - 93/94 - 93/94	
4 Investment Policies	Simplify licensing and land acquisition procedures Adopt one-window approval process for foreign & joint ventures	- end 93 - 93/94	
5 Price and Market Control	- Minimize wage & work regulations that encourage substitution of capital for labor	- 93/94-	
	 Decontrol all retail prices (except sugar, petrol prods, spare parts, public utility tariffs and pharmaceuticals) Decontrol ex-factory prices (except 9 essential goods) Set controlled prices to import parity plus tariff Set petroleum product prices to import parity plus tariffs 	- Jun 93 - Jun 93 - beg 94 - 93/94	implemented implemented
6 Public Enterprise Reform	- Ensure PE autonomy in pricing, procurement, staffing etc Eliminate budget support of PE losses through subsides and tax arrears - Eliminate govt. guarantees for PE domestic borrowing - Eliminate preferential access of PEs to forex and CBE loans - Begin implementation of phased action plan to divest PEs	- 93/94- - 93/94- - 93/94- - 93/94-	

Source: Ethiopia, IBRD and IMF (1993)

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